

Message Text

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ACTION AF-10

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FM AMEMBASSY PRETORIA

TO SECSTATE WASHDC 0109

INFO AMCONSUL CAPE TOWN

AMCONSUL DURBAN

AMCONSUL JOHANNESBURG

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E.O. 11652: N/A

TAGSC ECON, SF

SUBJECT: SOUTH AFRICAN PRICE INCREASES HIT BLACK CONSUMERS

1. A SERIES OF SHARP GOVERNMENT PRICE INCREASES HAVE BEEN ANNOUNCED DURING THE PAST WEEK, BEGINNING WITH SUGAR WHICH ROSE 23 PERCENT TO A RETAIL PRICE OF 17.7 CENTS/LB. (U.S.). STEEL PRICES WERE INCREASED AN AVERAGE OF R31 (\$35.65) A TON, 9.5 PERCENT FOR PROFILE STEEL PRODUCTS AND 13.5 PERCENT FOR FLAT PRODUCTS. THE LAST PREVIOUS INCREASE IN STEEL PRICES WAS 8.8 PERCENT IN DECEMBER 1976. FERTILIZER PRICES HAVE BEEN INCREASED BY 14 PERCENT, PARTLY AS RESULT OF 40 PERCENT CUT IN GOVERNMENT SUBSIDY.

2. ON JANUARY 4 MINISTER OF AGRICULTURE ANNOUNCED EVEN MORE SEVERE INCREASE OF 25 PERCENT, FROM 20 CENTS TO 25 CENTS (28.75 CENTS U.S.) FOR 900 GRAM LOAF OF WHITE BREAD. BROWN BREAD REMAINS THE SAME PRICE OF 16 CENTS (18.4 CENTS U.S.). MINISTER SAID THAT TO MAINTAIN PRICE, MILLER'S SUBSIDY WHICH NOW R60 MILLION A YEAR, WOULD

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HAVE HAD TO GO TO R87 MILLION. AT NEW PRICE IT WILL BE CUT TO R45 MILLION. PREVIOUS PRICE RISE WAS IN AUGUST 1976. MINISTER SAID HE EXPECTED NEW PRICE DIFFERENTIAL TO CAUSE A 20 PERCENT SHIFT FROM WHITE BREAD TO MORE NUTRITIOUS BROWN BREAD.

3. MANY CONSUMER GROUPS, INCLUDING BLACK HOUSEWIVES

LEAGUE AND INKATHA WOMEN'S BRIGADE HAVE PROTESTED AGAINST HARDSHIPS WHICH WILL RESULT PARTICULARLY WHEN BLACK UNEMPLOYMENT SO WIDESPREAD.

4. OTHER INCREASES ARE PREDICTED INCLUDING ELECTRICITY (15 PERCENT) AND CARS (12 PERCENT).

5. COMMENT: SINCE MOST OF THESE INCREASE IN ADMINISTERED PRICES FOLLOWED PREVIOUS PRICE RISES BY MORE THAN A YEAR, THEY WILL NOT NECESSARILY RESULT IN AN UPWARD ADJUSTMENT IN GENERALLY PREDICTED 10 PERCENT INFLATION RATE FOR 1978. CHIEF ECONOMIST OF FEDERATED CHAMBER OF INDUSTRIES SAID HE STILL EXPECTED INFLATION TO BE 10-12 PERCENT THIS YEAR, ALTHOUGH A STRONG ECONOMIC RECOVERY COULD UNLEASH POWERFUL NEW INFLATIONARY FORCES AS PRODUCERS TRY TO RESTORE HIGH PROFIT LEVELS. HE FELT SERIES OF PRICE INCREASES REFLECTED GOVERNMENT'S DETERMINATION IN POST-ELECTION PERIOD TO REDUCE SUBSIDY ELEMENTS IN ECONOMY AND DEPEND MORE ON MARKET FORCES, DESPITE SOCIAL COSTS INVOLVED.

6. BLACK SEGMENT OF POPULATION IS PARTICULARLY HARD HIT BY RISE IN PRICES OF SUGAR AND BREAD WHICH ARE HIGHLY IMPORTANT STAPLES. WHETHER BLACKS CAN BE PERSUADED TO SHIFT TO BROWN BREAD IS PROBLEMATIC. RECENT STUDY LIMITED OFFICIAL USE

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SHOWED SLIGHT TREND OF THIS KIND BUT IN 1975 BLACK HOUSEHOLDS IN JOHANNESBURG CONSUMED WHITE BREAD IN RATION OF THREE TO ONE OVER BROWN.

7. ADDING TO STRAINS ON BLACK BUDGET ARE SOWETO RENT INCREASES OF ABOUT R5 A MONTH. THESE INCREASES, WHICH WERE SUSPENDED LAST MAY AFTER PROTESTS BROKE OUT, HAVE BEEN RE-INSTITUTED IN THREE STEPS BETWEEN JANUARY AND MAY 1978. BOWDLER

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